

HOW TO INCREASE MARKET SHARE
IN PLASTIC INDUSTRY IN GREATER CHINA

by

LUNG SIU-WAI, MAY & WONG CHI-HUNG

龍少惠

黃志雄

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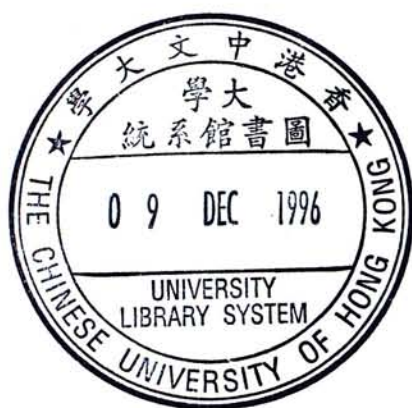
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Name: Lung Siu-Wai, May & Wong Chi-Hung

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Charles F. Steilen

(Dr Charles F Steilen)

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ABSTRACT

Hong Kong, Taiwan and China used to be three separate markets. When China government launched its open-door policy in 1978, overseas consortiums started their economic activities in China. The frontier was the Hong Kong consortiums who moved their productions to Shenzhen areas. This production shift was indeed an reinforcement to the economy of Hong Kong as the costs of labor and land were increasing drastically in Hong Kong. Although the political environment of China was not stable in late 80s, there was no obvious impact to the production shift.

In late 80s, China government started to offer preferential policies to attract investment from Taiwan consortiums. Since Taiwan also faced the problem of high costs of labor and land at that moment, many productions shifted from Taiwan to Fujian province. Due to the political constraint, Taiwan consortiums were not allowed to directly invest in China. They needed to establish Hong Kong subsidiaries to coordinate the production shifts. Through these production shifts from Taiwan and Hong Kong to China, three markets started to integrate together as one - Greater China.

The plastics consumption in Hong Kong, Taiwan and China increased drastically in 80s. Through the Greater China integration, these three plastics markets become a plastics kingdom in Asia. There are five major groups of plastics suppliers in the market: American, German, Japanese, Taiwanese and Korean. Each of them has applied different marketing strategies and established different market position. American suppliers are good at technical services while German suppliers have high

reputation in product quality. On the other hand, Japanese, Taiwanese and Korean suppliers offer cheap price to gain market shares. Among the five groups of plastics suppliers, Taiwanese suppliers are the most aggressive new entrant in the market. Since the production cost in Taiwan is comparatively lower than that of the United States, Germany and Japan, the Taiwanese suppliers are in a good position to offer attractive prices to customers in Greater China. Besides, the quality of Taiwan made plastics can generally fulfill customers' requirement. Under the current keen competitive environment, overseas suppliers have to formulate marketing strategies to maintain competitiveness in the market. One of the strategies is to join the Taiwanese suppliers by setting joint ventures.

On the other hand, the production shifts from Taiwan and Hong Kong also pose a challenge to plastics suppliers. Customers in Taiwan and Hong Kong ask for cross-territory delivery to China. This kind of request will inevitably create internal conflict between subsidiaries or distributors. Suppliers have to re-engineer their organizational structure to tackle the problem. Suppliers may need to merge three subsidiaries (Hong Kong, Taiwan and China) into one. Before implementing the Greater China concept, suppliers have to communicate with the employees to ensure no confusion exists during the re-engineering process.

Besides re-engineering the organizations to provide better service to the production shifts, the suppliers should not neglect the importance of identifying effective selling channels in China. The high import tax and value added tax are the two major barriers to suppliers when they sell plastics to China customers. Suppliers

need to help customer to escape from import tax and value added tax. One effective way is to utilize smuggling through distributors or traders.

Last but not the least, plastics suppliers have to be customer-focused. Their marketing strategies should be long term and flexible in order to maintain their competitive position. They have to consider investing in the Greater China market such as establishing manufacturing plants in China. Besides, suppliers should have technically capable salespersons in order to ensure quality services being delivered to customers.

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Lung Siu Wai, May Wong Chi Hung

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CHAPTER I

INTRODUCTION

There are more than hundred thousands plastics molders in Greater China. These molders offer very competitive production cost which attracts thousands of overseas plastics manufacturing orders. As a result, the plastics consumption in Greater China has increased drastically during the past decade. Now the Greater China market has become another kingdom of plastics industry in Asia. The huge plastics consumption of Greater China market can be reflected by the import figures showed in Appendix I.

There are five major types of plastics suppliers in Greater China, namely German, American, Japanese, Taiwanese and Korean. Each supplier applies different marketing strategies and establishes different market position. Comparing with the other overseas suppliers, the Taiwanese started to enter the China market much later - in end 1980s. Nevertheless, Taiwanese have successfully gained significant market shares from its competitors.

Focusing on the recent ten years when Taiwan investors have started their businesses in China and Greater China has emerged, the project teams studies the following topics:

- Change and trend of market environment in Greater China

- How Taiwanese suppliers successfully win the market share
- Comparison of the strengths and weaknesses of different marketing strategies adopted by different suppliers in the market
- Factors affecting market share
- Successful cases
- New challenges to suppliers

Based upon the above analyses, the project teams will suggest in the later chapters marketing strategies to win the market share of plastics industry in Greater China. Since the range of plastics is too broad, the project teams will only focus on several types of engineering plastics such as: PC (polycarbonate), Nylon, POM, ABS, PBT.

CHAPTER II

GREATER CHINA

The economic links among China, Hong Kong and Taiwan are growing at a fast pace and weave the three societies into a single economic entity - Greater China. Global businesses and policymakers can no longer look at any of the three constituent pieces of Greater China without also considering the links between them.

China, Hong Kong and Taiwan had relatively little contact with each other until China launched its open door policy in 1978. By mid 1980s, Hong Kong had firmly established its business position between China and the Western countries. By late 1980s, the Taiwan government released its policy against China and indirect trade across the Taiwan Strait has been booming. Taiwan becomes one of the largest investors in China. In 1993, the foreign direct investment in China from Hong Kong and Macau ranked the top - US\$77 billion, while that from Taiwan ranked the second - US\$10 billion.¹

Greater China is an economic area with growing mutual integration of trade and investment flows. However, it does not exist in political terms. The

¹"Investment Data." The China Business Review 22 (May 1995): 31.

authorities in China and Taiwan are not happy with the concept of 'Greater China.' Beijing does not recognize this concept because China has always considered itself as 'great' and all components of Greater China are regarded as a part of the national territory. The Taiwan government also dislikes the concept of Greater China and it already has many difficulties coping with its businessmen crossing the Taiwan Strait. The government fears that the island's economy relies too much on China. Most of the Far Eastern countries also reject the concept because of the potential consequences for their internal political situation. Overseas Chinese wealth has long been a sensitive issue; for example in Malaysia and Indonesia.²

Notwithstanding the denials of Greater China by China and Taiwan governments, a strong economic link has already been built between Guangdong and Hong Kong due to their physical locations, as well as Taiwan and Fujian, from where the majority of the island population migrated. Guangdong, Hong Kong, Taiwan and Fujian are the core of Greater China. A second circle is created by the coastal provinces where Hong Kong and Taiwan are starting to invest on a big scale. Greater China is thus a concept that is growing within China.

²"The Emergence of Greater China as an Economic Force." Long Range Planning 28 (February 1995): 54.

Economic relations between the three areas are characterized by the transfer of labor-intensive manufacturing operations from Hong Kong and Taiwan to China. Hong Kong and Taiwan provide technology and management expertise while China supplies cheap and abundant labor. This combination has led to stunning growth - Hong Kong's total trade leaped from around \$25 billion in 1978 to \$274 billion in 1993, while China's grew from \$21 billion to \$195 billion, Taiwan's from \$24 billion to \$162 billion over the same period.³ In 1994, Hong Kong and Taiwan was the second and fifth trading partners respectively of China. Hong Kong accounted for 17.7 percent of China's total trade, with only 2.5 percent behind China's biggest trade partner Japan.⁴

Hong Kong has been the primary mover of manufacturing to China. The shift is reflected in the pattern of Hong Kong's trade: from 1986 to 1991, re-exports have been growing at a much faster pace than domestic exports. In the last few years, Taiwan has also become a major player in trading to China. China - Taiwan trade conducted through Hong Kong - there are no direct shipping or air links between China and Taiwan - was 43 percent up from 1990 to 1991.⁵ The growing economic links between China and Taiwan are both a function of, and contributor to, decreasing hostilities between these two enemies.

Full economic integration of China, Hong Kong and Taiwan cannot be

³ Asian Development Bank. Key Indicators of Developing Asian and Pacific Countries. Oxford University Press, 1995.

⁴ "China Data." The China Business Review 22 (May 1995): 56.

⁵ "The Birth of Greater China." The China Business Review 19 (May 1992): 13.

achieved until some sort of political accommodation is reached between China and Taiwan and restrictions on market access and communications links are lifted. Nevertheless, 'Greater China' is a very convenient tool for the analysis of today's economic situation in the three areas. Furthermore, it is a hard fact for governments with regard to economic issues and for global companies in their business. The links between the mature markets of Hong Kong and Taiwan on one side and the new market of China on the other side are challenging corporate policy and organization.

This study concentrates on the discussion of one of the booming industries in Greater China - plastics industry. Recommendations are made on how to be successful (gain market share) in this growing and highly attractive market.

CHAPTER III

METHODOLOGY

Analysis Framework

To make recommendations on how to gain market share in plastics industry in Greater China, an analysis framework for this study is formulated. The framework is constructed on two foci, the investment environment of the Greater China's plastics industry and the characteristics of the market and its suppliers.

By analyzing findings on the above areas, the project teams identifies the opportunities and threats that the five major suppliers (German, American, Japanese, Taiwanese and Korean) face when competing in the Greater China market. Recommendations are made after taking into consideration the detailed study.

Market Definition

Discussions in this paper are based on the Greater China market and the plastics industry inside. As mentioned in Chapter II, Greater China is known as an economic entity composed of three societies, namely China, Hong Kong and

Taiwan. The plastics industry inside is defined to include molders and suppliers of engineering polymers which confined to PC, Nylon, POM, ABS and PBT.

Data Collection

Unlike those western countries where a lot of reliable secondary data are available, Greater China is a newly emerged market with relatively little data publicized. Primary data is therefore important in the analysis of this unique market.

Primary data can be collected by questionnaires or personal interviews. Self-administered questionnaire is not adopted in this study because of the foreseeable difficulties in conducting large scale survey in the three societies, especially in China. Moreover, questionnaire is not an adequate means in collecting qualitative data and open-ended questions are not advisable to be appeared in self-administered questionnaire. Also, it is recognized that most people in Greater China are unwilling to express their views in written form. Therefore, the personal interview approach which enables sharing of practical market experience of the suppliers, traders and molders in Greater China is more suitable and hence was used in this study.

To collect updated market information, opinions from relevant parties are essential. In-depth interviews with three types of related persons were conducted. They are the suppliers' or distributors' sales or marketing managers responsible for the Greater China market, managers of the traders as well as managers or engineers of the molders in Greater China.

To collect reliable data, especially for China, it is not possible by cold call. In this regard, when the project team selected respondents, it adopted arrangement through personal connection. Though every effort has been made to diversify the background of the respondents and hence make the result more representative, the data collected may not be able to one hundred percent reflect the current condition of the giant Greater China market. Nevertheless, the opinions gathered are in-depth and concrete which are valuable as the primary data of the market concerned.

A list of questions for the interviews is shown in Appendix II.

For literature review, books, government statistics and periodicals were studied for better understanding of the past and present development of the plastics industry in Greater China market.

Respondents Profile

Based on personal connection, a total of 17 personal interviews were conducted in China, Hong Kong and Taiwan from December 1995 to March 1996 to gather information. To ensure update information, the project team focused on interviewing personnels who were involved in the Greater China market at the moment. Only one interviewee had left the market one year ago but he was included because of his abundant experience - over 30 years in China and Hong Kong plastics market.

Among the 17 interviewees, five work for the suppliers; five work for the distributors; two work for the traders and five work for the molders. To ensure that a full picture of the Greater China market is revealed, the project team tried

to have a mix from all the three constituent pieces of the market. After careful arrangement, four of the interviewees are responsible for China market; two for Taiwan market; eight for both China and Hong Kong market; one for both Hong Kong and Taiwan market; and two for Greater China. The respondent profile is summarized in Appendix III.

CHAPTER IV

VALUE CHAIN IN PLASTICS INDUSTRY

The value chain provides better foundation for further discussion in this project. The chain starts from raw materials feedstock (monomer) to end consumer. Usually, it consists of three sections, namely manufacturing, distribution and processing. A value chain for plastics industry is illustrated in Appendix IV.

Manufacturing

Manufacturing process includes polymerization and compounding. Polymerization is a chemical process to produce polymer chains (plastics) from monomers. Compounding is also a chemical process which adds additives, glass fibers or tougheners to the polymer chains in order to enhance the performance of the plastics. Both polymerization and compounding can be combined in one manufacturing plant. But some suppliers prefer to build the compounding plants close to their strategic markets.

Nowadays, more and more suppliers move their compounding plants to Asia in order to shorten the delivery lead time for their Asian customers. If suppliers are able to identify sources of feedstock in Asia, they will consider moving the polymerization plant to Asia.

Distribution

Ten years ago, Greater China was a rural market for plastics. Some American and European suppliers did not sell plastics in Greater China. As the plastics consumption increased drastically after the open door policy was launched by China in 1978, most of the suppliers cannot afford to lose their presence in Greater China. Some of them set up sales offices there and sell plastics directly to customers. But some suppliers prefer to assign distributors in order to reduce operating cost.

Processing

After having bought plastics, molders need to convert plastics from pellet forms to different molded shapes by injection molding or extrusion. The minimum investment of them is an injection or extrusion machine. Molders were used to be responsible for molding only. All of the mold designs were carried out by their customers. Nowadays, molders are willing to upgrade their capability in order to be more competitive. They recruit tooling designers and install computer software such as CAD CAM in order to tailor-made molds for their customers. By doing so, molders not only offer a cost reduction for their customers, but also guarantee orders.

CHAPTER V

MARKET TREND IN GREATER CHINA

Greater China is broadly viewed as the fastest growing region in Asia Pacific. The political sensitivity used to hinder the three constituent areas from co-developing together. Nowadays China and Taiwan start to communicate with each other. Although the political re-union seems to have long way to go, both societies are trying hard to reach a consensus in principle which acts as a foundation for further negotiation. The communication is not smooth, as expected, but it does create a breakthrough in economic development in Greater China. When comparing with the picture ten years ago, the plastics industry of Greater China have tremendous changes which are briefly described in the following sections.

Hong Kong

The Hong Kong economy started to take off in 70s. Hong Kong used to enjoy a triumph card - cheap manpower which resulted in low production cost. In addition, the lassie-faire policy and preferential tax system further enhanced the investment environment. These favorable factors contributed to the fast growth of those labor intensive light industries like garment, electronic and plastics. In the early 80s, the favorable business environment for these

manufacturing industries could no longer be maintained due to various external and internal changes. Plastics molders and other labor intensive manufacturing industries started to move their operations away from Hong Kong.

In 1978, China government launched its open-door policy to attract more overseas investment. This policy definitely encouraged the Hong Kong consortiums to move their production bases to Shenzhen. At the beginning, the Hong Kong plastics molders were still afraid of the instability of China political situation, they only moved the assembling process and old machines to China. After years of smooth operations, the confidence of placing heavy investment in China raises. Nowadays, some of the molders move all of the operations to China and their Hong Kong offices are only for administrative and accounting purposes. The pace of production shift can be reflected by the plastics re-export figures shown in Appendix I.

Taiwan

The development process of Taiwan plastics industry is similar to Hong Kong. Starting from 70s, Taiwan plastics molders attracted some overseas orders to make plastics products in Taiwan. Although Taiwan government did not have preferential policies like those of Hong Kong, the cheap manpower and weak Taiwan currency were still attractive to overseas orders. On the other hand, one of the characteristics of the Taiwan plastics industry is its diversity. Besides plastics molders, there are some local production of plastics raw materials. Although the properties of local made plastics are generally inferior to the

imported ones, some Taiwan molders prefer to use the local made plastics because of their cheap prices.

During the last ten years, Taiwan has faced similar threats as Hong Kong - the increasing cost of land and manpower. Moreover, the strong Taiwan currency even make the case worse. To reduce production cost of the molders, moving operations away from Taiwan to other areas with better investment conditions is a logical means. However, due to political reasons, Taiwan molders could not move their operations to China as Hong Kong molders did in the early 80s. Instead, they moved to Asean countries like Thailand, Indonesia and Malaysia.

In 1986, both Taiwan and China governments showed interest of re-union. Taiwan molders started to consider moving the operations to China. As direct trade with China is forbidden by Taiwan government, Taiwan molders set up offices in Hong Kong in order to facilitate their investments in China. Due to geographical as well as historical reasons, the most popular place they moved was Fujian province. Comparing to Hong Kong, the pace Taiwanese move their operations to China is less aggressive. Political constraints still pose a psychological threats to Taiwan molders.

China

The central planned economy has been employed in China since the Communist took over the sovereignty in 1949. Under the planned economic environment, the government owned all the factories and the government bureaucrats made all major decisions about what would be produced, how it

would be produced and for whom it would be produced. Competition was banned and prices were set by the government. In fact the central planned economy was a protection to some plastics molders which were not operated economically.

Until mid 1980s, China government reviewed the central planned economy and started to introduce the market economy. During this transition period, those governmental owned plastics molders, which were not operated efficiently, faced a risk of bankruptcy. A lot of workers do not have works and the high inflation rate further put the local workers in a tough position.

Fortunately, the open-door policy launched in late 70s did attract the Hong Kong and Taiwan molders to move their operations to Shenzhen and Fujian province. These production shifts provided a lot of job opportunities for local workers. Many workers moved from the northern part of China to the south for jobs. In fact the production shifts provided not only job opportunities, but also training in different aspects such as technical and management skills for local workers. Some local workers have even started to run their own small molding factories and act as sub-molders to Hong Kong and Taiwan molders.

The appearance of sub-molders does not pose any threat to the Hong Kong and Taiwan molders because the sub-molders still have the language and financial problem to overcome before they can entertain the overseas orders. However, it is only a matter of time for the small local molders to grow stronger and compete for overseas orders.

Besides encouraging the production shifts, China government also welcomes overseas investment on building manufacturing plants for plastics raw materials. The big domestic market is one of the elements which attracts overseas plastics suppliers to consider building manufacturing plants in China.

The production shifts from Hong Kong and Taiwan to China is a driving force to integrate three markets into one. Such integration is acting as an reinforcement to each market. The plastics suppliers can no longer view these three markets separately.

CHAPTER VI

MARKETING STRATEGIES ADOPTED BY DIFFERENT KINDS OF SUPPLIERS

As mentioned in the previous sections, there are five major plastics suppliers in Greater China: American, German, Japanese, Taiwanese and Korean. Each of them applies different marketing weapons to establish different marketing position. In this section, we shall discuss different marketing strategies in five aspects: target customers, pricing policy, distribution, sales force management and promotion.

American Suppliers

Target Customers

The target customers are those molders who receive orders from the American customers. Usually, the American customers prefer to use plastics raw materials manufactured in United States. Another group of target customers for American suppliers are those molders who are willing to pay premium price to buy the technical services.

Pricing Strategy

The American suppliers always believe that their product performance and technical services deserve premium prices. Therefore their prices are always higher than the market one. Usually, American suppliers will not undercut the price to get more market share. They are always follower in price war.

Distribution

American suppliers prefer to directly deal with the big customers and assign distributors to provide sales services to the small customers. Although most of the American suppliers will not sign exclusive distribution agreement with their distributors, they assign only one distributor in each market to ensure each customer is served by designated distributor.

Sales Force Management

American suppliers always believe that sales force is an important marketing weapon to win market share. Once they identify a good potential market, they are willing to upgrade the technical and marketing capabilities of their sales teams. This philosophy also apply to their distributors' sales teams. Training courses are extended to their distributors' sales teams.

If the market proves to have a steady and profitable growth, they will utilize incentive programs or offer attractive package to motivate their sales teams. However, if profit is declining, they will re-engineer the sales organization or lay off some staff members in order to reduce the selling expense.

Promotion

American suppliers are willing to spend money to place advertisements in magazines which provides updated technical information to plastics molders. Besides advertisements, seminars or in-house molding trials are always organized to maintain front line contact with customers.

German Suppliers

Target Customers

German suppliers prefer to sell plastics to those molders who export the end products to European market. Price-oriented customers are not welcomed by German suppliers who are not willing to reduce price.

Pricing Policy

German suppliers believe that their plastics are superior to their competitors' products so the customers should pay more for better product quality. Their pricing policy are not aggressive at all. They will never lower the price to meet competitors' offering and they are the last follower in price war.

Distribution

German suppliers sell directly to the molders. They set up sales offices in Hong Kong, Taiwan and liaison offices in China in order to directly contact with their customers. In parallel, they also go through traders to provide sales services to the small customers.

Sales Force Management

German suppliers believe that strong products can sell themselves. Therefore they focus their resources in product development rather than providing training to their sales teams. The motivation state of their sales teams is always low. Comparing with American suppliers, German suppliers' remuneration package for the sales teams is relatively unattractive, except job security, which is much higher than American firms. German suppliers do not lay off any staff even when the sales teams fail to meet the profit objective.

Promotion

German suppliers prefer to spend money to establish booths in exhibitions. Besides exhibition, they sponsor some local academic research programs in order to promote their company images.

Japanese Suppliers

Target Customers

In the market, Japanese customers prefer to deal with Japanese suppliers. No matter how hard other suppliers try, the barrier to reach Japanese customers can hardly be overcome. Usually, Japanese suppliers target at price-oriented customers because Japanese suppliers always offer attractive prices.

Pricing Policy

Japanese suppliers are well known at offering low price to buy market share at the beginning. Once they reach their target and customers begin to

depend solely on their supply, they will increase the price gradually. Most of the Japanese suppliers view Greater China as their second priority. They have to fulfill the requirement of the customers in Japan market first. Should they have excess capacity to supply customers in Greater China, they are willing to offer an extremely low price to get the order.

Distribution

Japanese suppliers do not set up sales offices in Greater China. They prefer to sell plastics through distributors. Their practice is to assign one distributor in one market to avoid unnecessary competition among distributors.

Sales Forces Management

Japanese suppliers do not employ Japanese salespersons to sell plastics in Greater China. But they do send some Japanese marketing managers or technical engineers to provide services for customers. These Japanese visitors are also responsible for entertainment with their customers. Strictly speaking, Japanese suppliers place little emphasis on sales force management in Greater China. They never provide marketing and technical training to the distributors' sales teams. Low pricing policy is their most effective motivation to their distributors.

Promotion

Japanese suppliers do not spend money in promotion because they understand that their customers buy their products for low prices. They prefer to spend money in entertaining their customers in order to establish better relations.

Taiwanese Suppliers

Target Customers

Similar to Japanese suppliers, Taiwanese suppliers' target customers are the price-oriented customers. These customers do not really care about the performance of plastics. Once the plastics fulfill their minimum requirement, they choose the suppliers who offer cheapest price regardless of technical services and other factors.

Pricing Policy

With similar pricing policy as Japanese suppliers, Taiwanese suppliers offer extremely low price to get market share. In fact the production cost of the Taiwanese suppliers is comparatively lower than those American, German and Japanese competitors. Therefore, they can afford to maintain the low price for a relatively long period.

Distribution

Taiwanese suppliers started their foundation in Taiwan market by direct selling. Some big Taiwanese suppliers also sell plastics through distributors. When they grew stronger and have excess capacity for other markets, they have started to assign distributors in Hong Kong so as to sell their products in Hong Kong and China markets. Gradually, some of them set up sales offices in Hong Kong and China major cities like Shanghai and Beijing. Their long term strategy

is to directly sell to the big customers while maintaining distributors to serve the small customers.

Sales Force Management

Taiwanese suppliers have strong sales teams in Taiwan market. They provide extensive marketing and technical training to the Taiwanese salespersons. Besides they also offer attractive incentive program to motivate their Taiwanese sales teams. However, they lack strong sales teams in Hong Kong and China. Sending Taiwanese managers to manage the sales offices and distributors in Hong Kong and China is their recent trend.

Promotion

Taiwanese suppliers are aggressive in promotional activities. They always establish booths in exhibitions. In addition, they are willing to spend money in placing advertisements in technical magazines. They organize seminars or technical visits on a regular basis to maintain close relationship with their strategic customers.

Korean Suppliers

Target Customers

Like Japanese and Taiwanese suppliers, Korean suppliers target at the price-oriented customers.

Pricing Policy

Because of low production cost, Korean suppliers can afford to offer low prices in a persistent manner. Since Korean suppliers are the newest entrants in the plastics market, their prices are always the lowest in order to gain more market share. However, their product properties are the poorest when comparing with other competitors. Therefore their low price strategy is not so successful in getting significant market share.

Distribution

Korean suppliers do not have sales offices in Greater China. They prefer to use Korean traders to sell plastics. Surprisingly, they are the only suppliers who assign several distributors in each of the three areas in Greater China. Competitions between the distributors are allowed in the same marketplace.

Sales Force Management

Korean suppliers provide extensive marketing and technical training for their Korean sales teams. Their current focal point is at the Korean domestic market. Since their resources are limited, they cannot expand the sales force in Greater China. At the moment, Korean suppliers are still identifying capable distributors in Greater China. However, the progress is not that smooth.

Promotion

Korean suppliers are not active in promotional activities. Their priority is to improve the performance of their products.

General Market Situation

Among the five suppliers mentioned above, American suppliers are enjoying the highest market share in Greater China. Molders also prefer to buy from American suppliers because of the good technical services provided. In terms of product quality, German suppliers has the highest reputation but they are poor in technical support. But German made plastics are always specified by European customers, therefore molders have to buy German made plastics without expecting technical service. In terms of pricing, German plastics are the most expensive. If molders want to buy cheap plastics, they will approach Japanese and Taiwanese suppliers. Although Korean suppliers can also offer very cheap price, their products are not as popular because of poor product quality.

CHAPTER VII

FACTORS AFFECTING MARKET SHARE

Price

Every customer wants to buy plastics at the cheapest price. But it does not mean that cheap price can always help suppliers to gain more market share. Price will be a dominate factor to affect the market share under the following two conditions: when there is no shortage of that type of plastics; when the market share of that type of plastics is price elastic.

For those commodity plastics like polypropylene (PP), polyethylene (PE) and polystyrene (PS), even US\$10 per kilogram may result in a large difference in market share distribution. On the other hand, for the engineering plastics like PC, Nylon and POM, price does not have a significant influence on market share because customers buy engineering plastics for performance.

Continuous Supply

Molders always concern whether they have enough materials for production to meet their contracts with the end customers. No matter what kinds of plastics the molders use, they will face a big trouble if they run out of plastics raw materials. It will be a nightmare for molders if they fail to meet the production schedule. Therefore continuous supply is always the first criterion in

materials selection. To secure continuous supply, molders try to have multiple sources of plastics supply. Some of them even ask for long term supply contract from plastics suppliers. But only a few plastics suppliers are willing to offer this kind of contract which is not beneficial to them - customers always void the contracts when the price of plastics decreases.

Technical Services

Molders expect good services from plastics suppliers. However, if plastics suppliers require molders to pay extra for the technical services, most of the molders will refuse. In fact molders buying commodity plastics do not need technical services. Technical services are only meaningful for those molders who buy engineering plastics for performance. In this area of the engineering plastics market, good technical services can establish molders' confidence and secure long term business.

Delivery Lead Time

Naturally, molders hate long delivery lead time, especially for those who buy commodity plastics. The price of commodity plastics always fluctuate a lot within one or two months. If the lead time takes two months long, the price of plastics may have dropped 30 percent before arrival. Therefore long lead time imposes uncontrollable risk to the molders whose cash flow are frozen during the interim period. Molders buying engineering plastics also suffer from the long lead time, though at a much smaller scale because the prices of engineering plastics are more stable.

CHAPTER VIII

SUCCESSFUL CASES

The Case of Chi Mei

How did Chi Mei successfully introduce their ABS and gradually take the leading position in the ABS market within ten years?

Chi Mei is a Taiwan corporation. It was founded in 1959. Its major productions are ABS, PS, PMMA and AS. In the 70s and early 80s, Chi Mei focused its effort in the Taiwan domestic market. Ten years ago, it started to penetrate into the Greater China market. At that time, the ABS market in Hong Kong and China was monopolized by American supplier - Borg Warner. Chi Mei focused its resources in developing two to three general purpose grades.

At the beginning, Chi Mei offered customers a low price (about 10-20 percent below the market price). Besides, Chi Mei offered free sample and provided technical services for customers' molding trial. Its flexible and aggressive pricing strategy as well as the generous attitude of offering free sample did help them to win popularity within two years. In late 80s, Chi Mei successfully gained support from China government to distribute its ABS through SINOCHEN in China market. With this governmental support, Chi Mei could enjoy preferential policies, such as reduction of import tax, when it

promoted ABS in China market. Although these preferential policies did not last long, Chi Mei successfully gained market share from Borg Warner. At the present moment, Chi Mei has more than 50 percent market share in Greater China although its price has increased to the market level.

Competitive advantage

A crucial advantage of Chi Mei is its competitive production cost when comparing to Borg Warner. Chi Mei does not have a first class manufacturing plant, but it manages to produce plastics which meet its customers' requirements. In fact, customers do not care whether the plastics are manufactured in a first class manufacturing plant. Under such market situation, Chi Mei enjoys a good profit even though its price is 10 to 20 percent lower than Borg Warner.

In addition to the low price, Chi Mei has a committed supply to the Greater China market so customers have confidence in steady supply. This factor is critical to customers because some American and European suppliers viewed Asia as the dumping market. When these overseas suppliers faced worldwide shortage, they served their domestic markets first and spared only the excess supply to Asian market. Such 'unfair' treatment has switched many molders to the steady supplier - Chi Mei.

Besides, Chi Mei has established good distribution channels in Greater China. In Taiwan market, it has its own sales and marketing offices to maintain direct contact with customers. In Hong Kong, it assigns a big and aggressive distributor. In China, it utilizes the most effective governmental channels to distribute its products.

The Case of General Electric Plastics

How does General Electric Plastics monopolize the PC and PBT markets in Greater China?

General Electric Plastics is not the sole supplier of PC and PBT in Greater China. For PC market, it faces competition from German (Bayer) and Japanese (Mitsubishi, Toray and Teijin) suppliers. For PBT market, it faces the competition from German (Bayer, BASF) and Taiwanese suppliers. But General Electric Plastics has almost monopolized the PC and PBT markets for more than 10 years. Low price has not been the winning strategy of General Electric Plastics to dominate the PC and PBT markets. Customers buy its products for performance and technical service.

Comparative Advantages

PC and PBT are engineering plastics. Molders consider price a minor factor when they select the suppliers of engineering plastics. Their major concern is on technical services. If suppliers are capable of solving technical problems, molders are willing to pay a premium. General Electric Plastics has a strong sales organization in Greater China. It provides professional marketing and technical training for the salespersons. Besides, it also provides technical training for its distributors' sales teams. Meeting molders' needs in respect of advance technical services is the strength of General Electric Plastics.

The Case of DuPont

How does DuPont become the market share leader for Nylon ?

DuPont offers a wide range of Nylon to meet requirement of different applications such as electrical coil bobbin, motor components, buckle and monofilament for toothbrush. It adopts different pricing strategies in different applications.

For the applications that generate high volume of sales like bobbin and buckle, DuPont's pricing strategy is very flexible. It views these segments as its cash cows and therefore tries its best to maintain dominate market share. On the other hand, for the applications which do not face keen competition and contribute high profit margin, the price is rigid. Although DuPont's Nylon faces keen competition from the Japanese and German competitors, its average market share is more than 50 percent in Greater China.

Comparative Advantage

Nylon is an engineering plastics. Customers require technical services from the suppliers. Like General Electric Plastics, DuPont has a strong sales teams to provide professional technical services for molders in Greater China. It is generous in providing professional marketing and technical training to its salespersons and also its distributors.

In addition to the above advantage, DuPont has a new Nylon compounding plant in Singapore to secure steady supply to Asian customers.

Key Insight

The above three cases reveal the six factors which help suppliers to win market share in Greater China. The six factors are: (1) steady and secured supply; (2) effective distribution channels; (3) technical service; (4) flexible pricing strategy; (5) good product properties and (6) governmental support. However, it is noteworthy that these six factors are not always effective for all cases. The market is dynamic and new challenges appear from time to time.

CHAPTER IX

CHALLENGES TO PLASTICS SUPPLIERS

Production Shift

As mentioned in the previous section, many labor-intensive productions move from Hong Kong and Taiwan to China where cheap land and labor are abundant. Such production shifts pose new challenges to the plastics suppliers. It is common for Taiwan and Hong Kong molders to request their suppliers to deliver the raw materials to their China production plants. Especially for Taiwan molders which have shifted their productions to China. They place orders in suppliers' Taiwan subsidiaries or distributors and ask for deliveries to their China production plants.

Usually plastics suppliers have independent subsidiaries or distributors to sell plastics in each of the three areas in Greater China. Cross-territory deliveries create organizational conflict to the suppliers. This conflict becomes obvious when suppliers offer different prices in different areas within the Greater China market.

Due to the territorial constraint, the Taiwan subsidiaries or distributors are not allowed to sell plastics to China. Some Taiwan customers are forced to place orders to suppliers in Hong Kong or China. However, the prices in Hong

Kong and China are sometimes higher than Taiwan. As a result, some customers switch to other plastics suppliers. This potential risk of losing business is always the excuse for the suppliers' Taiwan subsidiaries or distributors to expand their territories to Hong Kong and China. The suppliers therefore have to face this organizational issue emerged in the Greater China market.

Attack From Taiwan Manufacturers

Although the plastics consumption in Taiwan market is very big, overseas suppliers have to face keen competition from the Taiwan local plastics manufacturers. These local manufacturers grow very fast and they can identify rooms for survival. Although their products are not originated from a first class manufacturing plant, the quality is still acceptable.

At the initial stage, the Taiwan manufacturers concentrated their efforts at the low-end market which was easily attacked by price. Later on they upgraded the performance of their products and approached the high-end market. Since their production cost is low, they are able to offer attractive prices which are about 10 to 20 percent lower than the market price. Chi Mei is a typical example.

Actually there are many new entrants like Chi Mei in Taiwan market. For example Formosa Chemicals is producing twenty thousand tons of POM per year. With the production flood from these local manufacturers, the market prices of plastics decline quickly and the profit margins of the plastics suppliers drop gradually. Once these local manufacturers saturated in Taiwan market, they

may expand their activities in Hong Kong and China markets. Then the market prices of plastics in the Region will also drop gradually.

High Import Tax and VAT in China

Import Tax

To protect local production, China government imposes different import taxes on different plastics. The import taxes used to be 30 to 40 percent of the total invoice values. The intention of China government to join GATT resulted in a reduction of import tax rates for plastics three years ago. The current import tax rates for plastics are 18 to 20 percent. Some Hong Kong traders used to state a lower value in an invoice in order to help their customers paying less import taxes. However, this trick no longer works very well because the China customs do not wish to lose the huge income generated from imported plastics. It keeps on updating the international prices of plastics.

China government implements preferential tax rules in the special economic zones (SEZs) - Shantou, Xiamen, Zuhai and Hainan province. Importation to SEZs enjoys import tax exemption or reduction. But the plastics should be consumed in the SEZs only. In fact this import channel is the most popular way to smuggle plastics into non SEZ areas without paying import taxes. Details will be discussed later.

Value Added Tax (VAT)

VAT, a system adopted by many European countries, is a tax ultimately borne by the final consumer of each product. It applies to a variety of goods and

services, including imported and domestic tangible goods and utilities as well as services related to the processing and repair of goods. Exports are not subject to VAT. Customers can get reimbursement of VAT if their products are exported.

VAT is levied and collected based on the value added to a good at each stage of the production cycle - from the initial acquisition of raw materials by producers to the purchase of finished goods by consumers. At each stage, VAT on a sale (output VAT) is collected by the seller and paid to the tax authorities. The seller can generally deduct VAT paid at the previous stage (input VAT) from the output tax he owes, and thus must pay only the remaining output tax to the tax authorities.

For plastics raw materials, the VAT is 17 percent which is the standard rate for most goods. If molders import plastics for goods ultimately being exported to foreign markets, they do not need to pay VAT. China government imposed VAT on 1 January 1994. However, the implementation has not been smooth. There are many faked invoices found in the market. To improve the situation, China government has amended the format of VAT invoices several times but the situation remains unchanged.

Imagine when a supplier wants to sell one ton of plastics to a China molder at US\$2000 per ton. If the molder has no channel to escape from the import tax and VAT, he has to pay US\$ $(2000 \times 1.18 \times 1.17) = \text{US\$}2761$. How can a local China customer afford to pay for such price?

CHAPTER X

WINNING MARKETING STRATEGIES

The project team has analyzed the recent market situation in Greater China and compared the marketing strategies of different suppliers. Besides, the project team has explored some successful cases and also discussed the new challenges in the plastics market. It is obvious that cheap price is not the most effective winning strategy when selling engineering plastics in the Greater China market.

Although Chi Mei entered the ABS market by a low price, they could not secure their market share if they failed to supply acceptable quality products and identified effective distribution channels. Cheap price is not always an effective weapon to start the attack into a new market. Like Korean suppliers, they tried to enter the market by offering low price, but they are still struggling in the market because of the poor product performance and distribution channel. If every supplier undercuts the price to win the market share and end up in a price war, all suppliers will become losers at the end.

The project team has conducted personal interviews with some plastics molders and suppliers in order to consult their insights on how plastics suppliers win the market share in Greater China. Based upon the information gathered

from the in-depth interviews and one of the team member's personal experience, the following marketing strategies are recommended:

Establish Manufacturing Plant close to Molders

The Significant Meaning of the Plant to Molders

Committed supply is one of the top concerns to the molders when they select plastics suppliers. Short supply is nightmare to molders. The situation is similar to a human being who is dying of starvation. Some suppliers create short supply condition deliberately by reducing production because they want to increase the selling price. But sometimes short supply is caused by plant explosion. Under short supply situation, every molder will be crazy for materials and they will be mad if they realized that suppliers are not treating them fairly in supply allocation.

Some suppliers prefer to supply to their domestic molders first and spare the excess quantity to the molders in Asian markets. Should the total demand in their domestic market exceed their production capacity, they will stop supply to Asian molders. This 'unfair' allocation is common for those American and European suppliers. Once the molders have learnt that lesson in a hard way, they will not forget the nightmare easily.

To ensure a secured supply, molders prefer to buy plastics from next door. Even though suppliers cannot guarantee supply, molders still expect to be treated fairly during short supply situation. No matter what kind of agreement has been made, molders still worry about the danger of short supply if the plastics manufacturing plant is far away from them. To show commitment to

molders in Greater China, suppliers have to build manufacturing plant close to molders.

Economical Scale of the Plant

Building a manufacturing plant is not as simple as building a house. Suppliers have to evaluate whether the market size is justified to run the plant economically. If the economical scale of the plant is minimum a thousand tons but the total market size is only half the minimum, building a plant does not make any business sense. To compensate for the absence of a production plant, the suppliers may consider establishing a big inventory for customers.

Scale of Investment

As mentioned in Chapter IV, manufacturing plant has two types: polymerization and compounding. The compounding plant needs less capital and is more versatile than polymerization plant. Some suppliers still have hesitation to build polymerization plants in Asia. Their first step is to build a compounding plant. If the market grows to a certain potential, a polymerization plant will then be considered.

Location of the Plant

Since many Taiwan and Hong Kong molders move their production to China, they prefer suppliers to deliver the plastics to their China molding plants. The most popular sites for molding plants are Guangdong and Fujian provinces. Therefore the optimum location to build a plant is the southern part of China. On the other hand, the demand from China domestic molders is growing equally fast.

These domestic molders are located at central-east and northeast of China. Therefore Jiangsu province is also a good location for building plastics manufacturing plants.

Some suppliers worry about the political situation in China. They prefer to take a conservative step and build the compounding plants in other Asian countries.

Potential Barrier

The manufacturing plant can be a wholly owned or joint venture in China. Suppliers have to consider the political stability of China before they decide to invest in China. To attract overseas investment to set up joint venture in China, the government does offer several preferential policies, such as tax exemption for the first five years of operations. However, bureaucratic is always the barrier in joint venture negotiation. Even though the joint venture has been set up, the clumsy business procedures may also affect the organizational effectiveness of the joint venture. Therefore some suppliers prefer to build wholly owned manufacturing plant in China.

Reference Cases

1. General Electric Plastics has a compounding plant in Guangdong Province. The plant started its production in 1996. The capacity is twenty thousand tons per year. Its major products are PC and PBT.

2. DuPont has a wholly owned POM compounding plant in Shenzhen. The production started in March 1996. The capacity is planned to be four thousand tons.
3. Bayer is negotiating a joint venture to build PC compounding plant in Shanghai area. The capacity is around twenty thousand tons per year.
4. DuPont is negotiating a joint venture to build a POM polymerization plant in Shanghai area. The Chinese partner is Ministry of Chemical Industry (MCI).
5. Rhone Poulenc (France) has a joint venture to produce Nylon in Shanghai. The capacity is three thousand tons per year.
6. DuPont has a POM compounding plant and a Nylon compounding plant in Singapore with the capacity of twenty thousand tons and thirty thousand tons per year respectively. Both plants are producing products only for Asian markets.

Join the Taiwan Compounders

The competitive attack from Taiwan compounders creates headache to those American, German and Japanese plastics suppliers. The production cost of the Taiwan compounders is so low that they offer a cheap price to Taiwan molders. If the foreign suppliers try to reduce the price to regain lost market share, outbreak of price war will be inevitable but all parties will ultimately be the losers. Recently the market prices of plastics in Taiwan market are dropping drastically. Some suppliers do not see any profit and consider to withdraw from Taiwan market. On the contrary some suppliers take proactive steps to negotiate joint venture with the Taiwan compounders. The joint venture agreements can be selling plastics feedstock or know-how to Taiwan compounders. One typical

example is Taiwan Engineering Company, which is the joint venture of Polyplastics, Hoechst Celanese, Mitsubishi and Taiwan Chang Chun Petrochemical. It produces twenty thousand tons of POM per year for Taiwan market.

In fact those foreign suppliers had enjoyed the honeymoon period for a long time. Their profit was used to maintain at a high level. Under such environment, it is normal to attract entrants like Taiwan compounders to share their profit. Once the number of competitors increases, the profit margin reduces. Although joining the Taiwan compounders may help the situation a bit, more and more entrants to Taiwan market will end at price reduction in the long run.

Organization Re-engineering: Greater China Integration

Following the birth of Greater China, suppliers can no longer view Taiwan, Hong Kong and China as three separate markets. The production shifts is a driving force to merge these three markets into one. Therefore the suppliers should re-organize themselves so as to utilize the available resources to provide the best services for molder. As mentioned in Chapter VIII, suppliers face the organizational conflict between subsidiaries or distributors caused by production shifts from Taiwan to China. This is a common problem of multinational plastics suppliers who have independent subsidiaries or distributors in Taiwan, Hong Kong and China. This conflict may be minimized if everyone is willing to share information and cooperate with each other. However, in reality, information is power and no one would release power to potential competitors in his career path.

To tackle this organizational issue, some suppliers merge the three subsidiaries into one Greater China section. The whole Greater China market will be managed by one Greater China sales teams. Molders can place orders at either Taiwan or Hong Kong and suppliers will arrange delivery to molders' China production plants. This Greater China concept has been adopted by some suppliers like DuPont and General Electric Plastics. The ideal case is to encourage the coordination of different sales teams in Greater China under one management so as to provide better service to those production shifts. However, this concept is too good to be true.

Issues of Organizational Behaviors

Although different sales teams are grouped together, they may have different hidden agenda. The Taiwan sales teams may use this Greater China concept as a weapon to expand their power. While the Hong Kong and China sales teams may react in a defensive manner and reluctant to cooperate with their Taiwanese counterparts. Such conflict is buried deeply. Unlike the conflict handling methods of people in the western societies, Chinese tend to maintain harmonic atmosphere in the organization, and are reluctant to reflect openly their dissatisfaction to the management. The management may not aware of the deeply buried conflict easily. To release this situation, management should take proactive steps to educate each sales teams the intention of the Greater China concept before carrying out the re-organization. Without the consensus of every party involved, the Greater China concept will end up in a lose-lose situation.

Upgrade the Technical Capability of Salespersons

Selling engineering plastics is different from selling commodity plastics. Commodity plastics are easy to mold and molders do not need technical services at all. Molders will consider the price as the most critical factor when they select commodity plastics suppliers. Therefore all these suppliers should do to win market share is to offer a cheap price. But the situation will be different when molders select the suppliers of engineering plastics. Only a few molders can mold engineering plastics without encountering technical problems. The personal interviews with some suppliers and molders reflected that more than 70 percent of molders in Greater China needs technical service from suppliers. If a supplier fails to solve the problem of its molder, the molder will abandon the raw materials and try the supplies from other suppliers.

Some suppliers have a separate teams to provide technical service to molders. Such arrangement is not customer-oriented because once the molders have technical problem, the front-line staff - salespersons cannot provide answer on the spot but arrange an appointment for their technical support teams. However molders are always impatient and refuse to wait long for an answer. Therefore salespersons need to be technical capable to solve some technical problems independently. Molders using engineering plastics prefer to buy from the helpful salespersons who understand and solve the technical problem immediately. In fact the technical capable salespersons are the most suitable persons to carry out the task because they know the 'language' to communicate with the molders.

Some salespersons have no interest in learning technical skills no matter what kind of technical training is offered by the suppliers. This kind of salespersons are the barrier for suppliers to win market share. Selling engineering plastics need technical salespersons. Suppliers should place more emphases in the selection process and identify the right candidates who have the potential to be trained in the technical context. Since it takes time to train up a technical salesperson, some suppliers prefer to offer attractive package to recruit the experienced technical salespersons.

Utilize Special Import Channel to Sell to China Molders

Every plastics supplier knows that China is a potential big market. A lot of China molders need to import plastics. But the high import tax and VAT (as discussed in Chapter VIII) are always the barriers to the suppliers and molders. In the early 80s, the business transaction of one plastics order was very simple. Every plastics order had to go through SINOCHEN which was the government designated corporation for plastics importation. At that time, China molders had no choice but went through SINOCHEN to buy plastics from overseas suppliers. Starting from late 80s, the government started to decentralize the import authority to more provincial corporations. This decentralization of authorities did provide good channels for China molders to escape from high import tax and VAT. It also complicated the business transaction of one plastics order.

Nowadays, China molders prefer to choose the suppliers who can identify special import channels which can escape from import tax and VAT. The special import channel is smuggling which is illegal. Most of the suppliers do not want

to be directly involved in such kind of business transaction. They will go through traders or distributors to sell plastics to their customers if special import channels have to be used.

The special import channel involved two parties - VAT invoice issuer and forwarder. The business transaction is outlined in Appendix V.

VAT Invoice Issuer

Usually, the VAT invoice issuers can be local governmental corporations or some local private trading companies. They can issue the VAT invoices without doing real business transactions. The VAT invoices sometimes may be faked. Whatever invoices they issue, faked or real, they charge customers at a rate of 3-5 percent. Of course they will not submit this tax income to government. Instead they will use such income to establish "special" relationship with the officials of governmental tax bureau to ensure they can be free from trouble. Usually these VAT invoice issuers will be informed in advance when the central government conducts periodic audit. Should they foresee any trouble, they may close the operation for a while and re-start again by using a new company name. Most of the VAT invoice issuers can be found at the southern cities of China, for example Zhuhai, Jiangmen, Dongguan, Shantou, Xiamen, Haikou etc. But it is not true that the VAT invoice issuers can be absolutely free from being caught. There are bound to be some issuers got caught during periodic governmental auditing campaign. Once the issuers are caught, they may be sentenced to capital punishment.

Forwarder

The forwarders are located at SEZs. It is easy to import the plastics into the SEZs but it is very difficult to transfer the plastics away from the SEZs without paying additional import tax. These forwarders have already established 'special' relationship with the officials of China customs. The forwarders charge their customers a so-call 'import license fee.' In fact part of these import license fees will be used to establish 'guanxi' with the officials. The import license fees are seasonal depend on the 'price' of the relationship. Currently the import license fee is RMB nine hundred per ton. During the central government's anti-smuggling campaign, the price may be double or even triple.

After customers have paid the import license fee and transportation fee, forwarders will take up the responsibility of importing plastics from SEZs and smuggling them to the designated non SEZ areas. If they are caught during smuggling process, they need to pay the full amount of import tax. In this case, customers usually do not need to compensate the forwarders.

Cost Comparison between Normal and Special Channel

The project team uses the following typical order as an example to illustrate the cost difference between the normal and special channel. Assuming one molder B confirms to buy from Supplier A one hundred tons of POM (plastics) at US\$ twenty five hundred per ton CNF Shantou. Molder B is located at Shanghai and the plastics are shipped to Shantou for customs clearance.

Cost of Normal Import Channel

Materials cost : US\$ 250000 = RMB 2075000

Import tax (18%) : RMB 2075000 x 18% = RMB 373500

VAT (17%) : RMB(2075000 + 373500) x 17% = RMB 416245

Local transportation from Shantou to Shanghai by train = RMB 40000

Total : RMB (2075000 + 373500 + 416245 + 40000) = RMB 2904745

Cost of Special Import Channel

Materials cost : US\$ 250000 = RMB 2075000

Import license fee : RMB 90000

VAT (5%) = RMB 2075000 x 5% = RMB 103750

Local transportation from Shantou to Shanghai by train = RMB 40000

Total : RMB (2075000 + 90000 + 103750 + 40000) = RMB 2308750

If Molder B go through the tricky import channel, he saves about RMB 600000. If his products are exported, he can even reimburse RMB 373500 from the government later.

Risk Born by Each Party in Special Channels

Although the tricky channel does help to reduce the cost a lot, the four parties involved face risk in different levels :

VAT Invoice Issuer

China government does know that there are a lot of VAT invoice issuers in China, especially in the southern cities. But China is too big for the government to control everything. Managing the VAT invoices needs a good

system and a lot of human resources. Although government recognizes the situation, there is no cheap and effective solution at the moment. But it does not mean that the government is doing nothing to tackle the problem. Periodically it audits the invoice records of certain companies by random sampling. Once a fault involving a big amount of money is identified, the most serious penalty to the company owner is capital punishment.

Forwarder

Despite the special guanxi maintained by the forwarders with the customs officers, they are caught by the customs officers on some unavoidable occasions. Usually, the forwarders need to pass through certain customs controls along the way from the port to the final destinations. To reduce illegal transportation, China government keeps on changing the customs officers so as to break the guanxi established. They will be caught if there is problem happened in any one of the customs controls. Usually the penalty to the forwarders will be much lighter. The common penalties are fine and imprisonment of several years.

Supplier

The payment to VAT invoice issuers and forwarders are in terms of cash from sellers. Therefore the sellers always stay away from any legal responsibility unless the cash transactions are caught on the spot and proved to be related to the smuggling. The most serious risk born by the seller is losing the money paid by the molder because it is the VAT invoice issuer who receives the money directly

from the molder. To reduce such risk, the seller prefers to pay more handling fee for a reliable VAT invoice issuer.

Molder

Among the four parties involved in the tricky channel, the molders bear the minimum risk. They pay to the VAT invoice issuers after they have received the cargo and invoices. The only risk is receiving a faked invoice and they need to pay the different of 14 percent to government.

Although this special channel is not ethical, suppliers have to engage in it because it does help molders to pay less while suppliers can maintain their profit. If suppliers do not consider this special channel, they may lose market share at the moment. However, the biggest loser in this transaction is China government. Even though China government implements new policies to tackle this illegal importation and invoicing, people still have the tactics to maintain the channel.

CHAPTER XI

CONCLUSION

The Greater China market is a big meat for plastics suppliers. All of the plastics suppliers cannot afford to lose their presence there. Simple marketing strategies like cheap pricing, on-time delivery are no longer effective in this market. The market is so dynamic and suppliers have to adopt flexible and long term marketing strategies to face the ever-changing challenges. The main theme of winning strategies is to be customer-focused.

The suggested marketing strategies mentioned in this project: (1) establish manufacturing plant close to the market; (2) re-engineering the organization; (3) upgrade the technical capability of salespersons; (4) utilize special import channel to sell to China molders, are all having the focal point of fulfilling customers' needs. In addition, suppliers should consider long term investment in Greater China such as setting up joint venture in Taiwan or China. Suppliers have to be localized in Greater China market because the local production cost in Greater China can provide better position for suppliers to maintain competitive offering to the molders.

As discussed in Chapter IX, several topics are beyond the scope of this project such as: (1) issues of organizational behavior for Greater China re-

organization; (2) issues in negotiating joint venture in Taiwan and China. These topics can be the extension of this project.

APPENDIX I

IMPORT AND RE-EXPORT FIGURES

Quantities (Tons) of Major Engineering Plastics Imported to Hong Kong

during 1985-1994

	1985	1986	1987	1988	1989
PC	8995	11351	15447	22223	25252
Nylon	4963	6660	9480	10826	9809
POM	5944	9365	11824	14073	17764
ABS	43011	75927	125880	188780	196140

	1990	1991	1992	1993	1994
PC	23471	27579	39199	39874	44976
Nylon	13576	18862	21675	21869	27749
POM	19724	23828	26042	29303	35892
ABS	247152	332032	401860	436970	573669

Quantities (Tons) of Major Engineering Plastics Imported to Taiwan

during 1986-1993

	1986	1987	1988	1989	1990	1991	1992	1993 (Jan-Aug)
PC	5494	6928	8522	12139	12828	19376	23005	16584
Nylon	8639	14640	21426	19717	34811	59396	53676	42196
POM	7852	9893	11819	11340	13170	16092	11901	7097
PBT	1826	3123	4360	5064	7362	7788	9869	7354

Remarks: the official plastics import figures of China are not available.

Quantities (Tons) of Major Engineering Plastics Re-exported from Hong Kong to
China during 1985-1994

	1985	1986	1987	1988	1989
PC	254	444	1162	6603	11851
Nylon	168	163	322	2560	1424
POM	224	504	650	1595	4573
ABS	7111	14185	30651	77551	60362

	1990	1991	1992	1993	1994
PC	12324	15343	21425	23807	27653
Nylon	2567	4370	4949	7762	12312
POM	6277	6155	10925	22900	19032
ABS	80512	205142	273897	365693	478649

APPENDIX II

QUESTIONS FOR IN-DEPTH INTERVIEW

Suppliers Profile

- 1 What are the major overseas plastics raw materials suppliers in Greater China?
- 2 Describe the characteristics of the suppliers mentioned in question 1 in the following contexts:
 - Target customers
 - Pricing policy
 - Distribution
 - Sales force management
 - Promotion

Economic Environment in Greater China

- 1 What is your view on the development of plastics industry in Greater China?
- 2 What is your view on the effect of production shift to sales volume of the suppliers? Has the shift resulted in keen competition or loss in market share?

Customer Profile in Greater China

- 1 What is the primary concern of the plastics molders in Greater China when they look for plastics raw materials suppliers?
- 2 Describe the molders' views on the following areas when they are selecting suppliers:
 - Quality of the plastics
 - Cost of the transaction including materials and transportation
 - Delivery lead time
 - Continuous supply
 - Technical services provided by the suppliers
 - Reputation of the suppliers

Marketing Strategies of Your Company (For Suppliers Only)

- 1 What are the measures your company adopted to increase market share in Greater China?
- 2 Do you consider the measures mentioned in question 1 effective?

APPENDIX III

RESPONDENTS PROFILE

Suppliers

Interview Date	Company Name	Position	Responsible Area
17 January 1996	DuPont Taiwan Ltd	Sales Manager	Taiwan
26 January 1996	General Electric	Marketing Manager	Greater China
28 January 1996	Union Carbide Asia Pacific Ltd	Sales Manager	China & Hong Kong
29 January 1996	Amoco Chemical Asian Pacific Ltd	Sales Manager	Greater China
30 January 1996	Bayer China Co, Ltd	Ex-Marketing Manager	China & Hong Kong

Distributors

Interview Date	Company Name	Position	Responsible Areas
16 January 1996	Trump Chemicals Corporation	Sales Manager	Taiwan
8 February 1996	China New Chemicals Materials	General Manager	China
11 March 1996	SINOCHEM	Sales Manager	China
12 March 1996	Twinstar Trading Co, Ltd	Sales Manager	China
22 March 1996	Shanghai Chemical Industry	Senior Technical Engineer	China

Traders

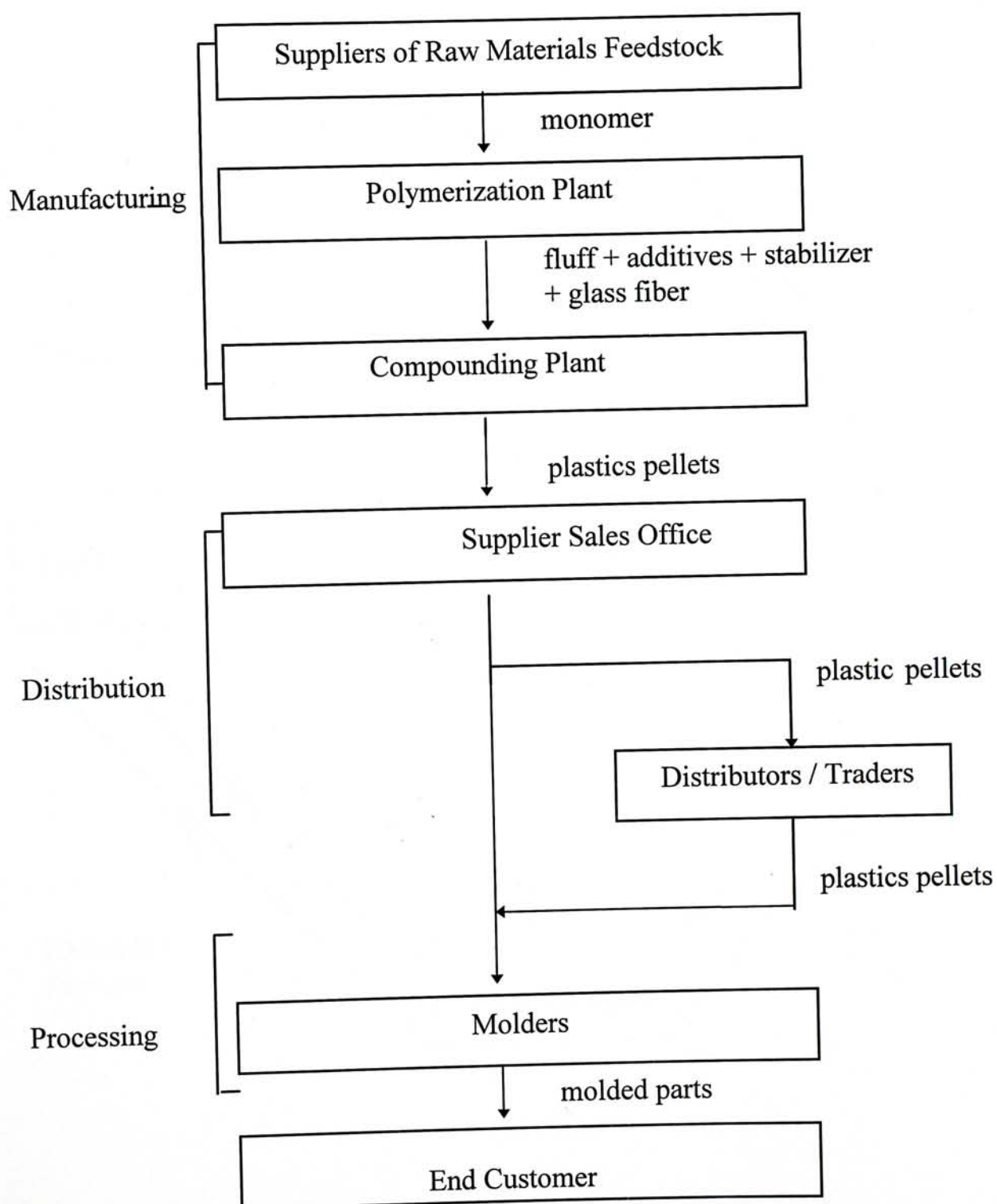
Interview Date	Company Name	Position	Responsible Areas
12 December 1995	E & B Chemical Trading Ltd	Sales Manager	China & Hong Kong
18 December 1995	First Foundation Co, Ltd	Director	China & Hong Kong

Molders

Interview Date	Company Name	Position	Responsible Areas
13 December 1995	Aceway Industrial Co, Ltd	Director	China & Hong Kong
4 January 1996	Berg Electronic Hong Kong Ltd	General Manager	China & Hong Kong
14 January 1996	Action Products Co, Ltd	Director	China & Hong Kong
14 January 1996	Amphenol Components Co, Ltd	Regional Marketing Manager	Hong Kong & Taiwan
23 January 1996	Pulse Components Asia Pacific Ltd	Procurement Engineer	China & Hong Kong

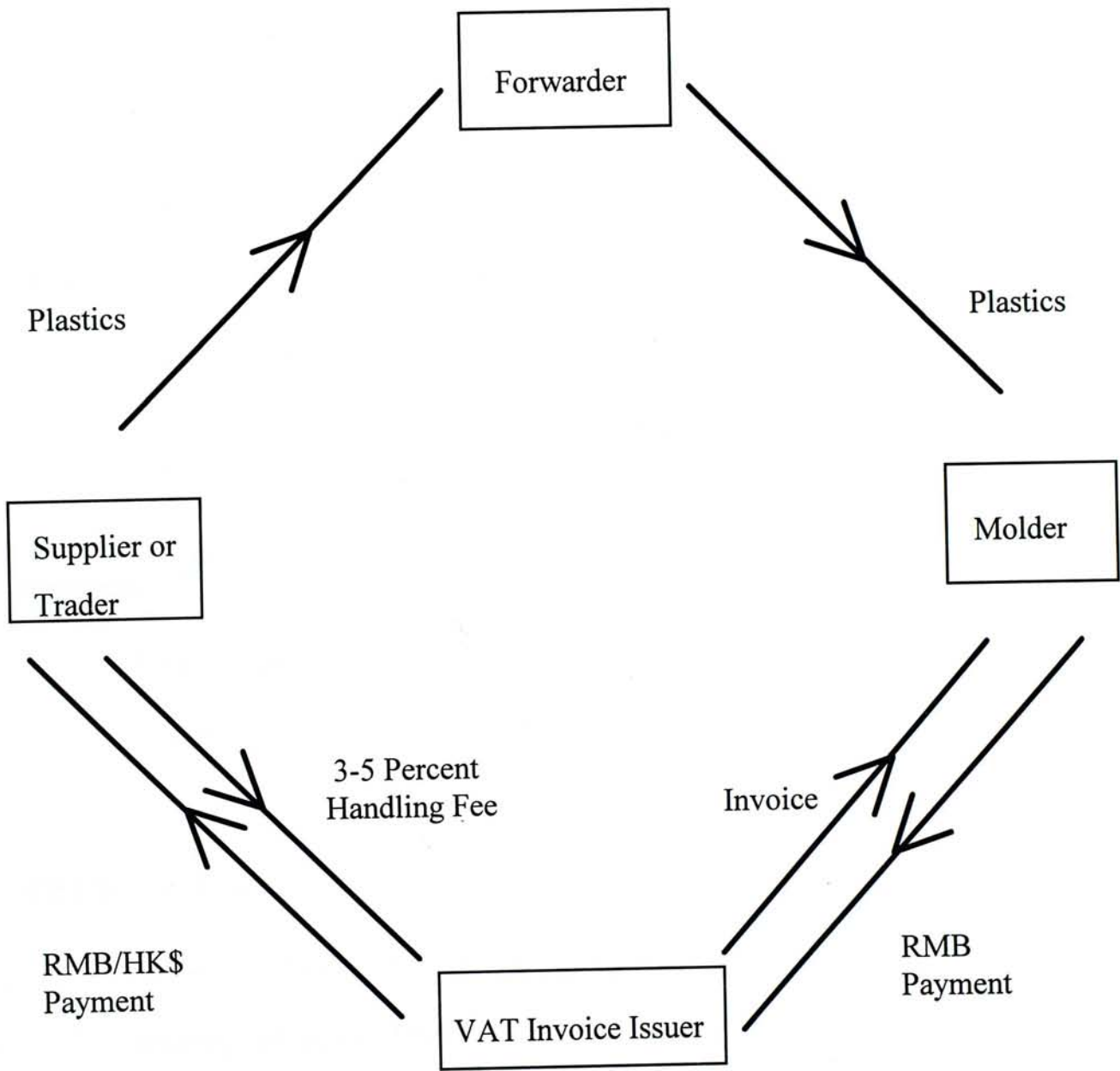
APPENDIX IV

Value Chain in Plastics Industry



APPENDIX V

SPECIAL IMPORT CHANNEL



Supplier / Trader

- confirms the RMB price with Molder;
- pays 3 to 5 percent handling fee to VAT Invoice Issuer for 17 percent VAT invoice;
- pays about RMB 900/MT to Forwarder for importing plastics without paying 18 to 20 percent import tax.

Molder:

- confirms the RMB price with Suppliers or Trader;
- pays RMB to VAT Invoice Issuer's bank account.

Forwarder:

- imports plastics for Molder without paying 18 to 20 percent import tax;
- transfers plastics from SEZ to Molder who is located outside SEZ.

VAT Invoice Issuer:

- issues 17 percent VAT invoice to Molder;
- transfers payment (RMB or HK\$) to Supplier/Trader's bank account.

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